



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

AN AMERICAN SYSTEM OF LABOR PENSIONS AND INSURANCE.

THE two most ominous conditions confronting the laborer, acting as an incubus to his progressive efforts, are first the probability of loss of income through accident or sickness and second the certainty of a period of diminishing returns to labor at a period in life in which the laborer becomes more dependent, this diminution resulting finally in complete cessation of income if the normal span of life is given. Whether based upon justice, duty, sympathy, enlightened self-interest or the idea of self-realization, proposals for the amelioration of industrial evils are essentially attempts to solve these two great problems. But with this as with other efforts to secure rational progress by control of social forces, the problem as presented to one people has quite a different form from that presented to neighboring people, even though of the same type of civilization and belonging to the same ethnic group. Those efforts to mitigate industrial evils which are adapted to one society, and therein promise to be effective, are not so adapted to other societies even though the general industrial organization may be the same.

Compulsory state insurance and various paternalistic and socialistic efforts may be efficacious with the German people; profit-sharing and various forms of patronal institutions may succeed in France; in England coöperation, friendly societies and various forms of voluntary associations perform a somewhat similar service,—that of supplementing the individual efforts of the laborer in his handicapped struggle for existence. Yet none of these may be applicable to American conditions. Tradition, historical continuity, a strongly centralized bureaucracy, a people accustomed to await the collective initiative are all factors favoring the success of the compulsory insurance

system of Germany. The religious and general social system in France, despite the teachings of her social philosophers, are adapted to the continuance of such patronal relations between various social classes. Voluntary associations, if not indigenous to the Anglo-Saxon soil, at least find their chosen habitat there. But the American not only scorns to await governmental initiative but he distrusts governmental activities,—for very good reasons it is to be feared. With him individual initiative and enterprise is not only a fundamental principle, it has become a fetish. Despite the developing socialistic sentiment, due largely to the governmental pension, public land, protective tariff and subsidy policies, such a system in an overt form will not be tolerated for many decades to come. Much less would the American people tolerate the patronal attitude. Nor have we the homogeneity of the English people that will permit that perfecting of voluntary associations which is attained with them. The volume and character of population and the extent of territory alike prevents it.

But little less evident is the need for some such institutions. Of the three general types mentioned the one most successful in France is least adapted to an American environment. All arrangements that are maintained out of generosity or betray the attitude of condescension upon the part of the employer are doomed to failure. All such endeavors savor of charity, and the American workman, if he is to receive charity, would rather be pauperized than patronized.

This suggests another consideration which must be borne in mind in all efforts for industrial amelioration in this country. We have inherited the traditional English attitude toward all collective assistance of the less fortunate members of society. For all such abnormal conditions the individual is to be held responsible, all collective assistance is regarded as some form of charity, and the fundamental principle of charity is that its acceptance must carry with it the mark of degradation. We have only escaped this attitude toward our vast national insurance or pension system by attaching to it a patriotic significance. Even

then it is doubtful whether the title "ward of the government" would carry the distinction that it does in most parts of our country were it not for the periodic worship of the politician.

Any method of industrial amelioration to be successful in America must avoid the bureaucratic form of German methods, the patronal form of French methods, and at the same time the evil of English methods—the degradation attaching to all recipients of collective relief in any form. Any such system must be founded upon the principles inherent in the Anglo-Saxon character, self-help and individual initiative. It must also be broader than this. It must include the German principle,—the collective responsibility for a large proportion of individual abnormality, whether of lack of employment, injury, ill-health, old age, or other forms of invalidity. In other words the principle of labor insurance, inclusive of pensions, offers a basis for the betterment of social conditions. This is but a continuation of the principle of mutual aid formerly operative throughout all industrial groups, but during the present century operative, if at all, in mutually exclusive groups. The insurance principle is the most prominent contemporary expression of social integration; and social integration is a chief factor in social progress.

The most valid objections to such propositions reduce themselves to the charge that such development may be at the expense of social differentiation; and it is not to be denied that in some respects various European projects are "returns to mediævalism." Those compulsory forms that would develop a common social type and repress all individual variations, that hamper the mobility of labor, that destroy vast systems of voluntary associations in the development of a bureaucracy are amenable to this charge. A condition of status is approximated and the future is heavily discounted. But this is not necessarily inherent even in compulsory forms, much less so in some modifications adaptable to American conditions.

This insecurity of livelihood of the laborer is responsible for the great mass of individual suffering and the non-progres-

siveness of social classes or of the individuals exposed to this insecurity. The belief that social customs and arrangements are largely responsible for this evil is coming more and more into popular acceptance. Relief from this insecurity must come either from individual efforts or from collective aid. The Anglo-Saxon antipathy to the latter method is based upon the belief that such evils spring from personal rather than from social causes. This belief is fostered by society for its own security or by the favored classes for their own benefit, with the confident assurance that the less favored classes can be educated in self-help by such means alone. Admitting that this is half the truth, the less obvious half now needs the greater emphasis. It is becoming evident that it is the impossibility of making adequate provision against this insecurity in its various forms, as well as the absence of opportunities and adequate knowledge of means of saving, that operates with large numbers if not with whole classes as a discouragement or even preventive to all saving. Under such circumstances collective aid is more likely to stimulate than to discourage thrift. Then again it is obvious that such thrift as would be required to make provision is utterly impossible with great numbers of those who are most in need of it. Such saving upon the part of these classes, even if possible, would lower the whole standard of life, a standard now implying a minimum of social welfare.

It is unnecessary to enter upon a discussion of the social value of insurance at this point; enough to point out the insufficiency of the individualistic solution. With all the benefits resulting from the multiplicity of commercial and mutual insurance companies, benevolent societies and trade organizations, it is evident that such efforts are wholly inadequate and do not affect the most serious of these evils.

A method based upon social solidarity will alone be efficient and sufficient. Do the continental methods of compulsory insurance afford this? Granting that they do for continental societies, it is evident that they are not applicable to Anglo-Saxon societies, at least in their present stage of development.

In the first place such systems require a regulation of labor that would not be tolerated. While to an extent such systems do bring about a freer, that is a fairer competition, by removing this handicap from the laborer, yet necessarily he is deprived of many privileges and much of the liberty that is so dear to the Anglo-Saxon. That such is the result is proved by the reaction toward the old guild system of industry in Germany. While the continental methods do not eliminate the factor of self-help, yet with those people less dependence has been placed upon this factor in the past than with the Anglo-Saxon. The immediate effect of such a system upon Anglo-Saxon population would unquestionably be a weakening of this principle to the detriment of society, an evil not entirely offset by the development of the principle of solidarity.

But fortunately there is an alternative. Social aid is not necessarily governmental aid. This alternative is social aid or obligation through trade or industry responsibility. There are many implicit recognitions of the validity of this principle. Employers' liability laws are such. Most of the trade associations and labor insurances are partially based upon this principle. Since the aid comes, however, from the laborer's efforts, it depends upon individual self-help rather than upon social responsibility. The railway insurance systems organized by several of the largest American railway corporations are similar implicit recognitions; though, as one would expect, the individual bears the brunt of this burden, and only to a slight extent does the industry acknowledge its responsibility, and then largely as a matter of financial protection. It is probable that most of the benevolent industrial schemes and not a few other variations of the usual method of industrial remuneration are based implicitly upon this principle, but because of their erroneous method fail utterly to accomplish this purpose. Coöperative enterprises, that are coöperative in reality as well as in name, are explicit recognitions of this principle. But these are few, their success questionable, and their application very limited. But fortunately there is an explicit trial of this

principle that has had a successful experience covering a score of years. Such an experience illustrates what an American system of labor pensions and insurance might accomplish. Reference is made to the system in operation in the extensive manufacturing enterprises of Alfred Dolge & Son at Dolgeville, New York. A brief account of its experience is instructive.

This firm employs 600 men in the manufacture of piano, organ and polishing felts, and felt shoes, together with piano sounding boards and musical instrument sundries. In certain products, due to their superiority, the firm has a monopoly of the American markets and a large export trade. The head of the firm, educated as an apprentice to the piano trade in Saxony, emigrated to New York in 1865, and there soon established himself in an independent business upon a small scale. In 1874, in answer to growing demands of trade, the business was moved to its present location in the foothills of the Adirondacks, finding there an unexcelled water power and lumber supply. The little hamlet of Brockett's Bridge, of 200 inhabitants, has grown to the small city of Dolgeville of more than 2000. But it is the firm's attitude toward its employés that is of especial interest, for the development of the industry finds its parallel in many an American locality. The town is not a "model" town; that is the firm does not seek to own the homes and control the little city. Many of the workmen own their own homes; and the firm assists them in doing this, building the houses upon plans selected by the workmen and advancing the capital at a low rate of interest. A clubhouse was built by the firm at a cost of \$10,000, and is maintained at an annual cost of \$400. This is the home of a flourishing Turn-Verein and contains besides the gymnasium a large public hall, library and reading room. A public park of 141 acres is maintained at an annual cost of \$1000. A school society was founded in 1886 and within five years \$40,000 was expended upon a school system. Three-fourths of this sum was paid by the firm, almost one-half of it being a free gift. The system is complete, including kindergarten and

academy. In addition a night school is maintained by the firm for its employés.

One of the first efforts of Mr. Dolge was the founding of a Mutual Aid Society among his workmen in 1881. To this the employer has contributed liberally, though its chief support is derived from membership dues. The firm also experimented with various forms of profit-sharing; and with two or three foremen this plan is still continued, the firm being bound to continue this as long as these men remain in its employ. But these plans were not satisfactory for many reasons. Mr. Dolge believes any such plan "wrong in principle and as a rule detrimental to the development of an enterprise;" that "any system which depends solely upon the will of the employer, and cannot be made an inseparable part of the wage-earning system is repulsive and therefore not worth considering." Dissatisfied with his experience in profit-sharing, Mr. Dolge turned to other experiments. In 1882 a system of pensions was introduced and four years later a system of life insurance. These various systems were combined in a general one in 1890, including pensions, life insurance and endowment, the latter being substituted directly for the profit-sharing schemes.

While the plan as thus reorganized has only been in operation for five years, yet the principle upon which it is based has had a test of twenty years. While the perfected plan is the result of experience, the fundamental principle is a conviction, and has always been the same. This principle is that the employer, the industry, should provide against the depreciation of the employés, and for their continuance and development, just as he does for the manufacturing plant; and as a certain percentage is set aside against this latter depreciation so a similar percentage on the wages fund should be set aside to be devoted to a similar service in respect to the employés. Twenty years' experience has demonstrated that in this business 1 per cent. of the wages fund will do this. Mr. Dodge holds that a business that cannot stand such an increase in expenses is so unstable as to be a menace rather than a benefit not only to its proprietor but also to society.

Such is the system in principle. In practice the firm sets aside each year a calculated amount on the profits of the business. Against this distribution account the amounts paid for life insurance under the provisions of the insurance system, and the amount necessary to maintain the pension fund are considered fixed charges. If in any business year the net profits are not sufficient to cover the amounts paid for life insurance and for pensions such deficiency is forwarded as a charge against the net earnings of the following year; the remainder, after the payment of such fixed charges, is dispensed under the provisions of the endowment fund.

The pension system provides that every male employé over twenty-one years and not over fifty years of age at the date of entering service shall be entitled, after ten years of continuous service, to a pension as follows: In case of partial or total inability to work, on account of accident, sickness or old age, an employé is entitled to 50 per cent. of the wages earned during the last year preceding the disability; 60 per cent. after thirteen years; 70 per cent. after sixteen years; 80 per cent. after nineteen years; 90 per cent. after twenty-two years; and 100 per cent. after twenty-five years of continuous service. In case of accident or sickness contracted while in the service of the house, previous to the completion of ten years' service, each employé is entitled to a pension of 50 per cent. of his wages earned during the year next preceding such accident. No pension is to exceed \$1000. That is, the highest schedule of pensions falling to employés who draw salary or earn wages to the amount of \$1000 a year or over, is as follows: After thirteen to sixteen years of service, a pension of \$600 while such disability may last; from sixteen to nineteen years of service, a pension of \$700; from nineteen to twenty-two years of service, a pension of \$800; from twenty-two to twenty-five years of service, a pension of \$900; after twenty-five years of continuous service, a pension of \$1000.

The life insurance system provides that every male employé, after five full years of continuous service, dating from the age

of twenty-one, is entitled to a life insurance policy of \$1000, and for every five years of continuous service thereafter, up to fifteen years, \$1000 additional; making for this class of employés a maximum insurance of \$3000. Employés entering the service at any time between twenty-two and twenty-six years of age, shall be entitled to not more than two policies of \$1000, one after five years and the other after ten years of continuous service. Employés entering the service at any time between twenty-seven years and forty years of age are entitled to policies of \$1000 after five years of continuous service. For all employés who enter the service after the age of forty years, and for all those rejected by the life insurance companies, the amount of \$35 is annually deposited, but in no case are principal and interest to exceed \$1000. In case of death the amount then to the credit of any employé is paid to his heirs and assigns, and all policies are made so payable.

The endowment system provides that every male employé over twenty-one years of age, after five years of continuous service, is entitled to an endowment account, upon which he is credited at the end of each year with the amount which the manufacturing record has shown to be earned over and above the wages paid him. If, through gross carelessness, the employé has caused the house a loss, such loss is charged against the above account. This fund is payable when the employé has arrived at the age of sixty years or upon his death. Interest at 6 per cent. is credited to the account. Should an employé quit the service of the house, interest ceases and the principal is paid as specified. Against this account any employé may obtain a loan not exceeding the amount to his credit by paying interest thereon at the rate of 6 per cent., and by giving collateral security. This system replaces the profit-sharing system, and has no vital connection with the pension and endowment systems.

None of these systems impairs the right of the employer to discharge an employé, or the right of the employé to quit service at any time for any cause. There are various minor pro-

visions, including one for the distribution of any balance remaining in case of change of proprietorship.

The accurate records kept by this firm reveal one of the most striking phenomena connected with American industrial conditions, that is, the extremely mobile character of labor. This characteristic is a great impediment to the development of such a system, and in many cases is the cause of the unfortunate condition of laborers, though in many other cases it may be a means of advancement. For the twenty years preceding 1894 this firm had employed 2046 men. Of this number only 835 or 40 per cent., remained in service for one year or more. The number of exits during the second year of entry was 206; during the third year, 121; during the fourth year, 73; during the fifth year, 36. There remained on the roll 171 who had not completed five years' of continuous service. The entire number of those entering the earnings division account, having completed five years continuous service, was 224, or 10.8 per cent. of the entire number employed. Of this number 107 were left on the earnings division account as entitled to benefits on January 1, 1894. These formed 24 per cent. of the whole number of male employ  s at that time. Of these, ten had been in continuous service for more than fifteen years; twenty-nine additional for more than ten years to thirteen years; and sixty-eight additional for more than five to nine years.

Under the provisions for pensions nine men have received benefits. These pensions have varied in amount from \$100 to \$507. The total amount paid to the present year has been \$9735.36. Of this amount the oldest pensioner, having been upon the rolls since 1882, has drawn \$3915.50. Another workman, drawing the highest pension yet given, has received \$2513.88 since 1890. For the current year four employ  s are entitled to pensions at the following rates: \$507, \$396, \$312, \$280, a total of \$1495.

The contributions to the pension fund had amounted to \$31,367.75 at the opening of the present year. It is to be noted that the interest on this fund, now amounting to \$22,878.71 is

about equal to the annual pensions paid. Hence, for several of the past years there have been no annual contributions to this fund—a striking vindication of the system. Unless the number of the employés should greatly increase, no further contributions to this fund will be necessary. The experience of twenty years has proven that a contribution of \$4 per annum for each employé is ample to assure the security of the fund. The accompanying table shows the wages paid and the contributions to the pension fund during a period of twenty years.

TABLE OF WAGES PAID AND CONTRIBUTIONS TO PENSION FUND
COMPOUNDED AT 6 PER CENT.

Year	Number of males employed	Total annual wages	Average wages per employé	Pension con- tribution (1 per cent. total wages)	Amount compounded at 6 per cent.
1874.....	31	\$13,613.60	\$439.15	\$136.14	\$436.59
1875.....	39	13,473.00	345.46	134.73	407.69
1876.....	35	13,212.00	377.49	132.12	377.07
1877.....	38	14,100.00	371.05	141.00	379.71
1878.....	63	19,421.00	308.27	194.21	493.29
1879.....	79	23,930.00	302.91	239.30	573.60
1880.....	98	31,255.66	318.94	312.56	706.69
1881.....	149	56,971.75	382.36	569.72	1,215.21
1882.....	274	127,813.87	466.47	1,278.14	2,571.62
1883.....	240	90,473.40	376.97	904.73	1,717.19
1884.....	195	71,475.28	366.54	714.75	1,280.12
1885.....	201	93,619.47	465.77	936.19	1,581.23
1886.....	362	129,312.19	357.21	1,293.12	2,061.24
1887.....	352	158,033.08	448.96	1,580.33	2,376.82
1888.....	303	172,152.88	568.16	1,721.53	2,442.85
1889.....	297	161,807.83	544.80	1,618.08	2,164.99
1890.....	330	151,346.75	458.62	1,513.47	1,909.99
1891.....	338	173,548.18	484.77	1,735.48	2,066.96
1892.....	432	211,203.35	488.90	2,112.03	2,373.93
1893.....	443	208,012.76	469.56	2,080.13	2,204.94
		\$1,934,776.05		\$19,347.76	\$29,341.73

The life insurance system has been more general in its application. Premiums to the amount of \$36,505.65 have been paid. The face value of the policies now in force is \$182,000. In addition to these, several policies of \$1000 each were turned over to the firm which recently purchased the shoe manufacturing department of the enterprise. The families of five deceased

workmen have been benefited by the system, each receiving \$1000. The earliest one was paid in 1888. The premiums on the policies for the past year amounted to \$2010.38, and at the annual reunion nineteen new policies were distributed. Several policies have lapsed, because workmen leaving the employ of the firm have failed to continue payment of premiums. To avoid this loss, all policies taken out since 1890 have been the twenty-payment endowment policies. Previous to that time the policies had been the old form of straight life insurance. This makes the plan more expensive for the firm but much more advantageous for the insured.

There has been placed to the credit of employés on deposit account, in lieu of life insurance policies, by reason of rejection of eight applications by insurance companies, a total of \$486.26. There has been placed to the credit of twenty-one employés on deposit account, for those entering employ of the firm at thirty-six years of age and over, the sum of \$2849.40.

The endowment benefits plan was introduced in 1890. For that year the sum of \$1405 was distributed to thirty employés, an average of \$47 each. For the year 1891 \$2564 was distributed to forty-eight employés. For 1892 \$3025 was distributed to fifty-one employés. There was at the end of that year an aggregate of \$8169.65 due eighty-one employés. Of this amount \$1209.89 was due twenty men who had left the employ of the firm.

On account of the recent industrial depression, there has been no distribution under the endowment plan for several years.

Such a system is capable of indefinite extension, and, with slight modifications, is applicable to most industries. The plan has been adopted by Daniel Green & Co. and the C. F. Zimmerman Company, firms which have purchased some allied lines of manufacture developed by the Dolge firm. President O. D. Ashley, of the Wabash Railway, and the editor of the *Railway Review*, have advocated the application of this system to railways. They believe that "in that line of industry the evidence

in favor of applying a system of life insurance and pensions, dependent upon faithful and continuous service, is conclusive."

It is interesting to note that a plan very similar was developed quite independently by President J. M. Ashley, of the Toledo, Ann Arbor and North Michigan Railway, and adopted by that company in 1887.¹ While, on account of the financial condition of the road, this plan has been abandoned without anything resulting from it in the way of dividends, and at the same time the advantages to the employés are much less definite, yet the underlying principles are identical. These are, first, the right of the workman to a share in the industry which he has helped to create, and, second, that of trade or industry responsibility.

The Dolge plan, or some modification of it, fulfills all the considerations dwelt upon in the first half of this article. It is an application of coöperation, which is as pronounced an embodiment of the principle of mutuality as our industrial system will permit at its present stage of development. The significance of such individual enterprises is great. The extension of this plan is largely independent of the efforts of the laboring man himself. The laboring man can do much to help himself, but he cannot and should not be expected to do all. Improvement in industrial conditions depends not only upon the intelligence, industry, and foresight of the laborer, but upon the attitude of the employer as well. If the employer does not recognize his responsibility to his employés and to society, does not recognize that the cash nexus is not the only one, and that the employé has claims that cannot be commuted for immediate wage payments—in other words, that both the laborer and society as well have a right in the industry that cannot be abrogated, there are no hopes for betterment under the present system. For as Carlyle has said, "The leaders of industry, if industry ever is to be led, are virtually the captains of the world. If there be no nobleness in them there will never be an aristocracy."

¹ For particulars *vide*. AMERICAN JOURNAL OF SOCIOLOGY, May 1896, pp. 707-9.

This much the industry, in mediating social responsibility, owes the laborer. The function he performs is on one side a social function. The industry performs this function immediately, and the laborer is organically a part of the industry. The group, either in its larger or its narrower delimitations, owes to the individual in return for his life's energy not only a hand to mouth living, but also a guarantee against the possible evils of accident and sickness and the assured evils of diminishing returns. Since family solidarity, the last protection of the aged and the unfortunate, is now dissolving as former group and local solidarities have previously, the necessity for the recognition of some such principle is the more urgent.

While such a system as the one outlined does not insure against the great evil of lack of employment, it does affect all but this. Though it is true that these evils are only sporadic in America at the present, yet in the near future they may become as menacing as in older civilizations, and in fact are rapidly becoming so. Consequently the consideration of such innovations by the American people is entirely pertinent. In time such questions will become political questions, as they have upon the European continent and as they are now becoming in England. As Mr. John Morley has remarked, whether achieved in the one way or the other, the man or the party that solves the problem of preventing the man who has worked hard all his life in the support of his family from becoming in his old age a subject of charity deserves more glory than by winning many battles on the field.

PAUL MONROE.

THE UNIVERSITY OF CHICAGO.